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ANNUAL
REPORT
1973



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DIRECTORS

George A. Fierheller
President,
Systems Dimensions Limited
Ottawa, Ontario

J. G. S. Gammell, M.B.E., C.A.
Partner,
Ivory & Sime
Edinburgh, Scotland

R. A. Hammond-Chambers
Partner,
Ivory & Sime
Edinburgh, Scotland

Neil B. Ivory
President,
Pembroke Management Ltd.
Montreal, Quebec

John S. Lane, C.F.A.
Associate Treasurer,
Sun Life Assurance
Company of Canada
Montreal, Quebec

Clifford L. Larock, F.C.I.S.
Chairman,
Pembroke Management Ltd.
Montreal, Quebec

Donald B. McCaskill
President and Chairman of the
Executive Committee,
Connlab Holdings Limited and
Connaught Laboratories Ltd.
Toronto, Ontario

A. Deane Nesbitt, O.B.E., D.F.C.
President and
Chief Executive Officer,
Nesbitt, Thomson and
Company, Limited
Montreal, Quebec

OFFICERS

Clifford L. Larock, F.C.I.S.
President

Neil B. Ivory
Vice-President

Ian A. Soutar, C.F.A.
Vice-President

A. Scott Taylor, C.F.A.
Vice-President

Richard Haller
Secretary-Treasurer

Cyril F. Reid
Assistant Secretary-Treasurer

MANAGERS

Pembroke Management Ltd.
Montreal, Quebec

LISTED

Montreal Stock Exchange

AUDITORS

Touche Ross & Co., Chartered Accountants
Montreal, Quebec

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company

HEAD OFFICE

1018 Sun Life Building,
Dominion Square,
Montreal, Quebec H3B 2W8

TO OUR SHAREHOLDERS:

REVIEW OF 1973

During the year Shareholders' Equity declined 15.7% to \$31.1 million while net asset value per common share fell 19.0% to \$9.26 (if the investments in Associated Companies were taken at market prices this value would be \$9.59). This decline in Shareholders' Equity resulted largely from a sharp correction in the share price of Peoples Department Stores Ltd., the largest portfolio investment in Dominion-Scottish Investments Limited, and a severe drop in the value of the investments held by Sutton Ventures Ltd., the venture capital subsidiary. These long term investments contributed importantly to GBC's record growth during 1972 and are expected to do so again in the future when investor interest returns to emerging growth companies.

Reflecting the share of income from associated companies (Warrington Products Limited for 9 months and Revelstoke Companies Ltd. for 4 months) net income rose 80% to \$765,000.

STRATEGY

In the 1972 Annual Report the strategy designed to maximize long term growth of Shareholders' Equity was described. The basic elements of this strategy are: the concentration of GBC's portfolio into a small number of major positions in attractive long term growth companies; the retention in Dominion-Scottish of a diversified but growth oriented portfolio of investments; and the placing of the funds of Sutton Ventures in junior or start up companies with particular emphasis on those engaged in new technologies.

GBC PORTFOLIO

Highlights of the year were:

1. The acquisition of an additional 153,700 common shares of Revelstoke Companies Ltd. bringing the holding to 400,000 shares equivalent to an approximate 20% interest in this company. Earnings of Revelstoke were included in the income statement of GBC for the last 4 months of 1973 on an equity accounting basis.

Revelstoke, a company operating in Western Canada with over 100 home improvement centres, a ready mix concrete business and a number of lumber mills, enjoyed an excellent year in 1973. Although results were not available at time of writing the profits of the company will be nearly double those of \$0.72 per share reported for 1972. This year growth is expected to continue because of strength in the petroleum and agricultural in-

dustries. The recently acquired Stewart & Hudson chain of home improvement centres, on Vancouver Island and mainland B.C., will also make an important contribution to earnings in 1974.

2. The purchase of 136,500 common shares and \$500,000 principal amount of 7 $\frac{1}{2}$ % convertible debentures of Headway Corporation Limited. These holdings, when combined with those of Dominion-Scottish and an additional \$500,000 of debentures purchased subsequent to the year end, give GBC the equivalent of an 11% interest in Headway.

Based in Thunder Bay, Ontario, Headway is engaged in diversified real estate activities, the operation of home improvement centres and the retail distribution of gasoline. Headway reported its sixth consecutive year of higher earnings for the fiscal year ended 31st August, 1973. The salient features were a 90% jump in revenues, a 56% increase in cash flow and a 40% rise in net earnings. Despite the prospect of moderately lower housing starts in Canada during 1974, the outlook remains bright for another record year.

3. The acquisition of 312,900 shares of Peoples Department Stores Ltd. at an average cost of \$6.68, which provides GBC, on a consolidated basis, with a 10.3% interest in this company.

Peoples operates a chain of approximately 110 Junior Department and apparel stores in Ontario, Quebec and the Maritime Provinces and jointly with Marks and Spencer of the U.K. is building a national chain of Marks & Spencer stores in Canada. Through acquisition and internal growth Peoples has experienced very rapid increases in sales and earnings over the past five years. While the 1974 fiscal year may be one of consolidation it is expected that the rapid growth rate will be resumed in 1975.

4. The disposal of GBC's entire holding of 400,000 common shares of Warrington Products Limited (approximately 41% of such shares then outstanding) to Cemp Investments Ltd. for \$2.7 million. The cost of this holding was \$1.7 million and after taking into account GBC's share of Warrington's earnings (using equity accounting) a profit of \$693,000 was realized. This disposal did not indicate a change in the policy of taking long term positions in attractive growth companies but resulted from the acceptance by Mr. John O. McCutcheon, the Chairman of Warrington, of a senior executive position with Cemp Investments Ltd.

DOMINION-SCOTTISH INVESTMENTS LIMITED

During the year Shareholders' Equity declined 18.3% compared with a decline of 3.6% for the TSE Industrial Index and 17.4% for the S&P 500 Stock Index. The policy of emphasizing intermediate sized growth companies worked against Dominion-Scottish during the relatively poor stock market environment of 1973 but is expected to bring about exceptional long term growth of assets.

SUTTON VENTURES LTD.

Sutton Ventures had a very disappointing year with Shareholders' Equity declining 42.6% to \$2.8 million. One of the company's two private investments was sold at a substantial loss and the share prices of its quoted investments declined sharply. One of the few positive notes was the continued excellent progress of the other private investment, Shared Medical Systems Corporation. This company provides data processing services for 130 hospitals in the U.S. and during 1973 doubled its pre-tax profits. Prospects for SMS remain excellent and a public offering either late this year or early in 1975 is a possibility.

DIRECTORS

During the third quarter of the year under review Mr. John O. McCutcheon, upon accepting the position mentioned earlier in this Report with Cemp Investments Ltd., resigned as a Director and Chairman of the Board of GBC, as a Director and Chairman of Dominion-Scottish and as a Director of Sutton Ventures. During his tenure as a Director of GBC and its subsidiaries Mr. McCutcheon made most valuable and constructive contributions to their progress and the Directors and Management of GBC wish him much success in his new endeavours.

It was decided not to appoint a Chairman of the Board since the by-laws of GBC do not require this office to be filled. Mr. Clifford L. Larock remains as President and Chief Executive Officer of GBC and has assumed the additional responsibility of Chairman and Chief Executive Officer of Dominion-Scottish.

On 17th January, 1974, Mr. George A. Fierheller was appointed a member of the Board of Directors of GBC and its subsidiary Dominion-Scottish. Mr. Fierheller, who is the President of Systems Dimensions Limited, helped to build SDL into Canada's most successful computer information company.

OUTLOOK FOR 1974

Against the prospect of a shortage induced recession for most of the economies of the Western World, Canada should enjoy a satisfactory year in 1974. Being practically self-sufficient in oil, and an exporter on balance of energy from all sources, it should be less vulnerable to the dislocations caused by the increased costs of energy. The main stimulants to economic growth in Canada are expected to be increased capital expenditures, a continued high level of consumer spending and greater exports. Real GNP is anticipated to rise between 4 and 5% in 1974 compared with an estimated 7% increase in 1973. Corporate profits could rise by 5 to 10% in 1974, down sharply from the 30 to 40% jump last year.

The principal negative factor in the outlook for the Canadian economy this year, and the one that adversely affected financial markets in 1973, is, of course, the accelerating rate of inflation. While a somewhat reduced rate of economic growth may cause a decline in the rate of inflation by the second half of 1974, the level for the year as a whole is expected to remain in the range of 6 to 8% and could well accelerate again in 1975. While common stocks have not given investors the desired protection during periods of high inflation in the recent past, it is believed that they will accomplish this objective over the long term.

In present circumstances, the Company's policy is to remain fully invested in the shares of companies appearing to have the potential to grow at an above average long term rate.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders of the Company will be held on 25th April, 1974, at the Head Office of the Company.

On behalf of the Board

CLIFFORD L. LAROCK,
President.

Montreal, Quebec
12th March, 1974

GBC CAPITAL LTD.
and subsidiary companies

**CONSOLIDATED
STATEMENT OF INCOME AND
RETAINED EARNINGS**

for the Year Ended
31st December, 1973

	1973	1972
INCOME FROM INVESTMENTS:		
Securities in investment portfolios	\$ 739,011	\$ 852,937
Associated companies (share of earnings—Note 4)	451,400	35,800
	<u>1,190,411</u>	<u>888,737</u>
Management expenses (Note 9)	203,965	216,762
Other expenses	70,676	95,256
Interest	30,421	75,638
	<u>305,062</u>	<u>387,656</u>
	885,349	501,081
Income and withholding taxes (Note 6)	30,122	74,855
	<u>915,471</u>	<u>575,936</u>
Minority interest	150,421	150,696
NET INCOME	765,050	425,240
Retained earnings at beginning of year	636,809	579,797
	<u>1,401,859</u>	<u>1,005,037</u>
Dividends:		
5 1/4% Preferred shares	315,000	315,000
Common shares	107,777	53,228
	<u>422,777</u>	<u>368,228</u>
RETAINED EARNINGS AT END OF YEAR	\$ 979,082	\$ 636,809
Net income per Common share	<u>\$0.167</u>	<u>\$0.041</u>

AUDITORS' REPORT

To the Shareholders,
GBC Capital Ltd.

We have examined the consolidated statement of financial position of GBC Capital Ltd. and subsidiary companies as at 31st December, 1973 and the consolidated statement of income and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the consolidated financial position of the companies as at 31st December, 1973 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Que.
18th January, 1974.

Touche Ross & Co.
Chartered Accountants

GBC CAPITAL LTD.
and subsidiary companies

**CONSOLIDATED
STATEMENT OF
FINANCIAL POSITION**

as at 31st December, 1973

	<u>1973</u>	<u>1972</u>
INVESTMENTS:		
Securities in investment portfolios at market value (Note 2)	\$31,079,052	\$39,472,813
Associated companies (Note 3)	3,430,900	1,736,800
	<u>34,509,952</u>	<u>41,209,613</u>
CURRENT ASSETS:		
Cash and short term deposits	2,593,948	365,123
Accounts receivable	719,250	388,597
Accrued income on investments	112,984	208,557
Income taxes recoverable	80,919	—
	<u>3,507,101</u>	<u>962,277</u>
CURRENT LIABILITIES:		
Bank loans	—	1,000,000
Preferred dividend payable	78,750	78,750
Accounts payable and accrued expenses	3,437,224	402,092
Income taxes payable	—	275,470
	<u>3,515,974</u>	<u>1,756,312</u>
NET CURRENT LIABILITIES	(8,873)	(794,035)
	<u>34,501,079</u>	<u>40,415,578</u>
MINORITY INTEREST	3,397,222	3,523,851
SHAREHOLDERS' EQUITY (Note 8)	<u>\$31,103,857</u>	<u>\$36,891,727</u>
REPRESENTED BY:		
Capital stock (Note 4)	\$21,968,574	\$21,968,574
Contributed surplus	1,325,310	1,325,310
Retained earnings	979,082	636,809
Surplus from changes in investments (Note 5)	4,623,911	4,247,792
Unrealized appreciation of investments (Note 2)	2,206,980	8,713,242
	<u>\$31,103,857</u>	<u>\$36,891,727</u>

On behalf of the Board:

C. L. LAROCK, Director
NEIL B. IVORY, Director

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

31st December, 1973

Note 1. Principles of Consolidation

The consolidated financial statements include the accounts of Dominion-Scottish Investments Limited (97.03% owned) and Sutton Ventures Ltd. (100% owned) and give effect to the share of earnings attributable to investments in associated companies. (See note 3).

**Note 2. Securities in Investment Portfolios at
Market Value**

	<u>1973</u>	<u>1972</u>
Securities in investment portfolios at market value		
GBC Capital Ltd.	\$10,555,294	\$11,316,645
Dominion-Scottish Investments Limited	18,257,072	23,360,868
Sutton Ventures Ltd.	2,266,686	4,795,300
	31,079,052	39,472,813
Securities at average cost	28,175,193	30,103,106
	2,903,859	9,369,707
Amount allocated to minority interest	696,879	656,465
Balance included in Shareholders' equity as unrealized appreciation of investments	\$ 2,206,980	\$ 8,713,242

Note 3. Associated Companies

During the year:

- (a) The Company sold its entire investment in Warrington Products Ltd., the purchaser assuming the obligations of GBC with respect to such investment. The sale proceeds of \$2,700,000 exceeded cost (\$1,701,000) plus the Company's share of Warrington's earnings (1972, \$35,800 — 1973, \$270,400) by \$692,800, which amount was credited to Surplus from Changes in Investments.
- (b) The Company increased its holding in Revelstoke Companies Ltd., to 400,000 common shares, being approximately 21% of the outstanding common shares of that company and now accounts for such investment on the equity method. Although in Canada such a holding would not of itself warrant the use of the equity method, in this particular case, the Company believes it is appropriate because it is able to exert a significant influence over the operations of Revelstoke.
The investment in Revelstoke Companies Ltd., is carried at cost (\$3,286,400) adjusted by the proportionate amount of earnings attributable to such investment on a fully diluted basis (\$144,500). The market value of this investment as at 31st December, 1973, was \$4,300,000.

Note 4. Capital Stock

	<u>1973</u>	<u>1972</u>
5 $\frac{1}{4}$ % first cumulative redeemable preferred shares of the par value of \$50 each		
Authorized and issued — 120,000 shares	\$ 6,000,000	\$ 6,000,000
Common shares without nominal or par value		
Authorized — 7,500,000 shares		
Issued — 2,694,429 shares	16,166,574	16,166,574
	22,166,574	22,166,574
Less: Shares held by a subsidiary at stated value		
33,000 common	198,000	198,000
	<u>\$21,968,574</u>	<u>\$21,968,574</u>

The first preferred shares are redeemable at the option of the Company at any time in whole or from time to time in part, on not less than 30 days' notice, at \$52.50 per share (in one restricted event at \$50 per share) plus accrued and unpaid dividends, if any, to the date of redemption. The Company may, at any time and from time to time, also purchase the whole or any part of such preferred shares in the open market at a price not exceeding the redemption price thereof plus costs of purchase.

Note 5. Surplus from Changes in Investments

	<u>1973</u>	<u>1972</u>
Balance at beginning of year	\$4,247,792	\$ 798,296
Net gain from changes in investments		
(including gain on exchange 1973 — \$795, 1972 — loss \$10,925)	685,566	3,864,282
Less: Provision for income taxes	309,447	414,786
	376,119	3,449,496
Balance at end of year	<u>\$4,623,911</u>	<u>\$4,247,792</u>

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(Continued)**

31st December, 1973

Note 6. Income Taxes

The Companies' expenses exceed their taxable income from investments and consequently there is an income tax credit shown on the consolidated statement of income and retained earnings.

The provision for income taxes of \$309,447 shown in Surplus from Changes in Investments (note 5) represents the tax related to the taxable gains from changes in investments during the year. The income taxes actually payable for the year amount to \$279,325 and represent the tax related to the gains from changes in investments, less the income tax credit of \$30,122 reflected in the consolidated statement of income and retained earnings.

Note 7. Statement of Source and Application of Funds

A statement of source and application of funds has been omitted since it is deemed inappropriate for an investment company. The following statement showing changes in shareholders' equity has been substituted therefor.

Note 8. Changes in Shareholders' Equity

	1973	1972
Shareholders' equity at beginning of year	<u>\$36,891,727</u>	<u>\$26,909,349</u>
Add:		
Net income for the year	765,050	425,240
Proceeds from investments sold	18,970,130	20,244,921
Less: Cost of investments sold	<u>18,285,359</u>	<u>16,369,714</u>
Net gain from changes in investments	684,771	3,875,207
Provision for income taxes on net gain		
from changes in investments	(309,447)	(414,786)
Gain (loss) on exchange	795	(10,925)
Increase in unrealized appreciation		
of investments	—	6,848,534
	<u>1,141,169</u>	<u>10,723,270</u>
Deduct:		
Par value of 1% preferred shares redeemed		
and purchased for cancellation	—	372,664
Dividends:		
5 1/4% preferred shares	315,000	315,000
Common shares	<u>107,777</u>	<u>53,228</u>
Decrease in unrealized appreciation		
of investments	6,506,262	—
	<u>6,929,039</u>	<u>740,892</u>
(Decrease) Increase for the year	<u>(5,787,870)</u>	<u>9,982,378</u>
Shareholders' equity at end of year	<u>\$31,103,857</u>	<u>\$36,891,727</u>

Note 9. Directors and Officers

The Board of Directors consists of eight members whose aggregate remuneration from the Company (included in management expenses) amounted to \$9,362 in 1973 (1972 — \$8,793) and \$9,608 from subsidiaries (1972 — \$8,596). There are seven officers of the Company, three of whom are also Directors. The Officers of the Company received remuneration of \$5,625 and \$2,820 from subsidiaries in 1973.

Note 10. Foreign Currencies

Transactions in foreign currencies during the year were recorded at the relative rates of exchange applicable on the dates of such transactions. Amounts in foreign currencies included in assets and liabilities have been shown in Canadian funds, converted at rates of exchange applicable on 31st December, 1973, any adjustment thereon being credited or charged, as the case may be, to Surplus from Changes in Investments.

GBC CAPITAL LTD.
and subsidiary companies

INVESTMENT PORTFOLIOS

as at 31st December, 1973

	Number of Shares	Market Value
BANKS AND FINANCE		
Bank of Montreal	20,000	\$ 390,000
Canadian Imperial Bank of Commerce	10,000	280,000
Investors Group, The, 5%, 1969 Series, conv. pfd., of \$25	8,000	140,000
Investors Group, The, Class "A"	20,000	160,000
*Lomas & Nettleton Financial Corporation	40,000	358,560
MICC Investments Limited	40,000	600,000
Reed Shaw Osler Limited	70,000	682,500
Royal Bank of Canada, The	15,000	547,500
*Western Bancorporation	10,000	252,785
		<u>\$ 3,411,345</u>
CONSUMER PRODUCTS		
Dominion Dairies Limited	16,000	\$ 584,000
Scott's Restaurants Co. Limited	100,000	900,000
		<u>\$ 1,484,000</u>
DATA PROCESSING		
*Data 100 Corporation	1,620	\$ 18,555
*National Data Corporation	25,000	174,300
†*Shared Medical Systems Corporation, conv. pfd., of \$1 Systems Dimensions Limited	20,000 40,000	398,400 630,000
		<u>\$ 1,221,255</u>
ENERGY		
*Murphy Oil Corporation	5,000	\$ 400,890
Pacific Petroleum Ltd.	10,000	302,500
*Pennzoil Co.	25,000	666,075
*Pennzoil Louisiana and Texas Offshore, Inc., Class "B"	150,000	766,422
*Pennzoil Offshore Gas Operators, Inc., Class "B"	91,500	877,620
*Standard Oil Company, The, Ohio	20,000	1,533,840
*Stone & Webster, Incorporated	5,000	445,112
Wainoco Oil Ltd.	50,000	262,500
*Williams Companies	20,000	1,411,930
		<u>\$ 6,666,889</u>
FOREST PRODUCTS		
MacMillan Bloedel Limited	15,000	\$ 485,700
Weldwood of Canada Limited	20,000	250,000
		<u>\$ 735,700</u>
HEALTH CARE		
*Bio-Medical Sciences, Inc.	3,000	\$ 122,508
*National Medical Care, Inc.	100,454	675,353
*Survival Technology, Inc.	20,000	209,160
		<u>\$ 1,007,021</u>
MANUFACTURING		
Ivaco Industries Ltd.	60,000	\$ 585,000
Toromont Industrial Holdings Ltd.	310,000	666,500
		<u>\$ 1,251,500</u>

	Par Value or Number of Shares	Market Value
METALS AND MINING		
Dynasty Explorations Ltd.	50,000	\$ 477,500
Lornex Mining Corporation Ltd.	30,000	281,400
Pine Point Mines Limited	5,700	173,850
Rio Algom Mines Limited	25,000	856,250
Yukon Consolidated Gold Corporation Limited, The .	264,000	435,600
		<u>\$ 2,224,600</u>
PRINTING AND PUBLISHING		
Ronalds-Federated Limited	20,000	\$ 390,000
Toronto Star Limited, Class "B"	20,000	420,000
		<u>\$ 810,000</u>
REAL ESTATE		
Alliance Building Corporation Limited	45,000	\$ 382,500
Fairview Corporation of Canada Limited, The	17,000	365,500
*General Growth Properties, S.B.I.	20,000	293,820
Headway Corporation Limited, 7 1/2% conv. debentures, 1992	\$600,000	576,000
Headway Corporation Limited	162,100	750,523
Orlando Realty Corporation Limited, The	102,700	1,309,425
S.B. McLaughlin Associates Limited	35,000	612,500
Sifton Properties Limited	40,000	350,000
		<u>\$ 4,640,268</u>
RETAILING		
Peoples Department Stores Ltd.	492,900	\$ 4,559,325
Tonecraft Limited	125,000	641,250
		<u>\$ 5,200,575</u>
UTILITIES		
Bell Telephone Company of Canada, The	20,000	\$ 805,000
*Virginia Electric and Power Company	25,000	361,050
		<u>\$ 1,166,050</u>
MISCELLANEOUS		
*Bethlehem Steel Corporation	15,000	\$ 493,020
*Midwestern Distribution, Inc., Class "A"	20,000	67,330
Power Corporation of Canada, Limited, 5%, 2nd Series "A", conv. pfd., of \$12	56,300	654,769
Resource Service Group Ltd., The	14,200	44,730
		<u>\$ 1,259,849</u>
TOTAL VALUE OF INVESTMENT PORTFOLIOS		<u><u>\$31,079,052</u></u>

*U.S. Securities.

†Restricted shares, at Directors' valuation.

GBC CAPITAL LTD.
and subsidiary companies

FIVE-YEAR FINANCIAL SUMMARY

	1973	1972	1971	1970	1969
Gross income	\$ 1,190,411	\$ 888,737	\$ 634,571	\$ 801,935	\$ 952,338
Net income	765,050	425,240	358,257	448,433	638,625
Per common share—					
Net income	0.167	0.041	0.016	0.050	0.120
Dividend paid	0.04	0.02	—	—	—
Total funds available	34,501,079	40,415,578	31,698,715	21,726,494	26,204,392
Shareholders' equity	31,103,857	36,891,727	26,909,349	21,726,494	26,204,392
Available for common shares	24,645,419	30,433,289	20,078,247	14,665,452	18,708,106
Net asset value per common share:					
Equity accounting basis	9.26	11.43	not applicable		
Market value basis	9.59	12.03	7.54	5.44	6.94

Note: All per share figures have been adjusted for 3 for 1 share split.

